



Permanent Normal Trade Relations (PNTR) Status for Russia and U.S.-Russian Economic Ties

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Summary

The change in Russia's trade status will require legislation to lift the restrictions currently applied to Russia under Title IV of the Trade Act of 1974, which includes the "freedom-of-emigration" requirements of the Jackson-Vanik amendment. On November 19, 2006, U.S. and Russian officials signed the bilateral agreement on Russia's accession to the World Trade Organization (WTO). This step allowed Russia to move closer to acceding to the WTO. Members may confront the issue of whether to grant Russia PNTR during the 111th Congress.

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Granting Russia PNTR status requires a change in law because Russia is prohibited from receiving unconditional and permanent NTR under Title IV of the Trade Act of 1974, which includes the so-called Jackson-Vanik amendment. Extension of PNTR has implications for Russia's accession to the World Trade Organization (WTO). This report examines this legislative issue in the context of U.S.-Russian economic ties.

What are NTR Status and the Jackson-Vanik Amendment?

"Normal trade relations" (NTR), or "most-favored-nation" (MFN), trade status is used to denote nondiscriminatory treatment of a trading partner compared to that of other countries.¹ Only two countries—Cuba and North Korea—do not have NTR status in trade with the United States. In practice, duties on the imports from a country which has been granted NTR status are set at lower rates than those from countries that do not receive such treatment. Thus, imports from a non-NTR country can be at a large price disadvantage compared with imports from NTR-status countries.

Section 401 of Title IV of the Trade Act of 1974 requires the President to continue to deny NTR status to any country that was not receiving such treatment at the time of the law's enactment on January 3, 1975. In effect this meant all communist countries, except Poland and Yugoslavia. Section 402 of Title IV, the so-called Jackson-Vanik amendment, denies the countries eligibility for NTR status as well as access to U.S. government credit facilities, such as the Export-Import Bank, as long as the country denies its citizens the right of freedom-of-emigration. These restrictions can be removed if the President determines that the country is in *full compliance* with the freedom-of-emigration conditions set out under the Jackson-Vanik amendment. For a country to maintain that status, the President must reconfirm his determination of full compliance in a semiannual report (by June 30 and December 31) to Congress. His determination can be overturned by the enactment of a joint resolution of disapproval concerning the December 31st report.

The Jackson-Vanik amendment also permits the President to *waive* the freedom of emigration requirements, if he determines that such a waiver would promote the objectives of the amendment, that is, encourage freedom of emigration. This waiver authority is subject to a annual renewal by the President and to congressional disapproval via a joint resolution. Before a country can receive NTR treatment under either the presidential determination of full compliance or the presidential waiver, it must have concluded and enacted a bilateral agreement that provides for, among other things, reciprocal extension of NTR or MFN treatment. The agreement and a presidential proclamation extending NTR status cannot go into effect until a joint resolution approving the agreement is enacted.

¹ MFN has been used in international agreements and until recently in U.S. law to denote the fundamental trade principle of nondiscriminatory treatment. However, "MFN" was replaced in U.S. law, on July 22, 1998, by the term "normal trade relations." (P.L. 105-206). MFN is still used in international trade agreements. The terms are used interchangeably in this report.

Russia's NTR Status

In 1990, the United States and the Soviet Union signed a bilateral trade agreement. The agreement was subsequently applied to each of the former Soviet states. The United States extended NTR treatment to Russia under the *presidential waiver* authority beginning in June 1992. Since September 1994, Russia has received NTR status under the *full compliance* provision. Presidential extensions of NTR status to Russia have met with virtually no congressional opposition.

Russian leaders have continually pressed the United States to “graduate” Russia from Jackson-Vanik coverage entirely. They see the amendment as a Cold War relic that does not reflect Russia’s new stature as a fledgling democracy and market economy. Moreover, Russian leaders argue that Russia has implemented freedom-of-emigration policies since the fall of the communist government, making the Jackson-Vanik conditions inappropriate and unnecessary.

While Russia remains subject to the Jackson-Vanik amendment, some of the other former Soviet republics have been granted permanent and unconditional NTR. For example Kyrgyzstan and Georgia received PNTR in 2000, and Armenia received PNTR in January 2005. Perhaps what has irked Russian leaders greatly is that the United States granted permanent and unconditional NTR status to Ukraine in 2006.

U.S.-Russian Economic Ties

During the Cold War, U.S.-Soviet economic ties were very limited. They were constrained by national security and foreign policy restrictions, including the Jackson-Vanik amendment restrictions. They were also limited by Soviet economic policies of central planning that prohibited foreign investment and tightly controlled foreign trade.

With the collapse of the Soviet Union, successive Russian leaders have been dismantling the central economic planning system. This has included the liberalization of foreign trade and investment. U.S.-Russian economic relations have expanded, but the flow of trade and investment remains very low, as reflected in **Table 1**, which contains data on U.S. merchandise trade with Russia since 1999.

Table 1. U.S. Trade with Russia, 1999-2009

(Billions of U.S. Dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Exports	2.1	2.1	2.7	2.4	2.4	3.0	3.9	4.7	7.4	9.3	5.4
Imports	5.9	7.8	6.3	6.8	8.6	12.6	15.3	19.8	19.3	26.8	18.2
Balances	-3.9	-5.6	-3.5	-4.4	-6.2	-8.9	-11.3	-15.1	-11.9	-17.4	-12.8

Source: U.S. Department of Commerce. International Trade Administration.

The table indicates that U.S.-Russian trade, at least U.S. imports, have grown appreciably. U.S. imports from Russia have largely consisted of oil products, crude oil, and various metals. U.S. exports span a range of products including meat, machinery parts, and aircraft parts. U.S. imports increased more than 350%, from \$5.9 billion to \$26.8 billion from 1999 to 2008, and U.S. exports

rose 343%, from \$2.1 billion to \$9.3 billion. However, U.S. exports and imports with Russia declined substantially in 2009, as a result of the global financial crisis and economic downturn. Russia accounted for 1.2% of U.S. imports and 0.5% of U.S. exports in 2009, and the United States accounted for 3.6% of Russian exports and 5.7% of Russian imports.² Russia was the 32nd largest export market and 20th largest source of imports for the United States in 2009.

U.S. exports to and imports from Russia are heavily concentrated in a few commodity categories. The top five 2-digit Harmonized System (HS) categories of imports, accounted for about 70% of total U.S. imports from Russia and consisted of precious stones and metals, inorganic chemicals, mineral fuels, aluminum, iron and steel, and fish and other seafood. About 60% of U.S. exports to Russia consisted of products in three 2-digit HS categories: aircraft, machinery (mostly parts for oil and gas production equipment), and meat (mostly poultry).³

Issues in U.S.-Russian Trade

Russia's treatment of imports of U.S. meats—poultry, pork and beef—is one of the most sensitive issues in U.S.-Russian trade relations. Russia's agricultural sector, particularly meat production, has not been very competitive, and domestic producers have not been able to fulfill Russia's expanding demand for meat, especially as the rise of Russian incomes has led to a rise in demand for meat in the Russian diet. U.S. producers, especially of poultry, have been able to take advantage and have become major sources of meat to the Russian market. At the same time, Russia has become an important market for U.S. exports of meat. For example, in 2008, Russia was the largest market for U.S. poultry meat exports, accounting for 20% of total U.S. exports of poultry meat.⁴

However, at the end of 2009, Russia imposed restrictions on imports of U.S. pork because of what the Russian government considered to be excessive amounts of antibiotics in the meat. Russia wants the United States to establish procedures to certify that the pork meets Russian standards before it is shipped, essentially establishing separate inspection procedures for shipments to Russia. U.S. pork suppliers claim that such special procedures would raise their production costs. Russia has been a very important market for U.S. pork producers.⁵

In addition, on January 1, 2010, the Russian government implemented new restrictions on imports of poultry, another important U.S. export to Russia. Russia says that the chlorine wash that U.S. poultry producers use in the preparation of chickens violates Russian standards. The United States claims that the wash is effective and safe.⁶ Russia has also called for additional inspections of U.S. beef prior to shipment to Russia, beginning February 1, 2010. Russia's restrictions on meat imports is becoming a major irritant in U.S.-Russian trade relations.⁷ U.S. and Russian agricultural officials met in Moscow the week of January 17- 23, 2010, to discuss the issues; however, no final solution appears to have been reached.

² *World Trade Atlas*. Global Trade Information Services, Inc.

³ *World Trade Atlas*.

⁴ U.S. Department of Agriculture. Economic Research Service. *FATUS, Export Aggregations*. Accessed on March 18, 2009.

⁵ *Inside U.S. Trade*, January 8, 2010.

⁶ *Ibid.*

⁷ *Inside U.S. Trade*, January 22, 2010.

Another significant issue for the United States has been the perceived lack of enforcement intellectual property rights (IPR) protection and had been a major stumbling block in the bilateral negotiations on Russia's accession to the WTO. Producers of DVDs, CDs, and other products of intellectual property have consistently cited Russia as a leading source of pirated materials. The Office of the United States Trade Representative has also placed Russia on its priority Special 301 watch list, indicating potential problems that need to be monitored and that may require further action.

Russian economic policies and regulations have been a source of concerns. The United States and the U.S. business community have asserted that structural problems and inefficient government regulations and policies have been a major cause of the low levels of trade and investment with the United States. Russia maintains high tariffs on some goods that U.S. manufacturers try to export. For example, tariffs on cars plus the excise tax that is prorated for engine displacement adds close to 70% on the price imported U.S. passenger cars and sports utility vehicles. U.S. exporters have also cited problems with Russian customs regulations that are complicated and time-consuming.

Russia's Accession to the WTO

Russia first applied to join the General Agreement on Tariffs and Trade (GATT—now the World Trade Organization [WTO]) in 1993. For many years, Russia's accession process seemed to move slowly, but in the last few years, Russia had accomplished some critical steps, including the completion of bilateral agreements with the European Union (EU), the United States, and most of the other WTO members that sought such agreements. At the beginning of 2009, Russia had been in the process of completing negotiations with a WTO working party (WP), which includes representatives from about 60 WTO members, including the United States and the EU. Throughout this process, WP members have raised concerns about Russia's intellectual property rights enforcement policies and practices, sanitary and phytosanitary (SPS) regulations that may be unnecessarily blocking imports of agricultural products, and Russia's demand to keep its large subsidies for its agricultural sector, among other issues.

However, in a stunning announcement, Prime Minister Putin stated on June 9, 2009, that Russia would be abandoning its application to join the WTO as a single entity, but instead would pursue it with Belarus and Kazakhstan as a customs union. It is not clear at this time why Russia's leaders had decided to change the country's application status. Belarus and Kazakhstan have also applied to join the WTO, but Belarus, in particular, was not as far along as Russia was in the process as the other two countries. After meeting resistance from WTO officials, Russia and the other two countries decided to pursue accession separately but with common proposed tariff schedules. In the meantime, the customs union went into effect on January 1, 2010, but disputes have emerged among the three countries, including how their joint customs revenues should be distributed.⁸

⁸ *International Trade Reporter*. February 11, 2010.

Implications and Legislation

Granting Russia permanent and unconditional NTR status will have little direct impact on U.S.-Russian trade. Russian imports have entered the United States on a NTR or MFN basis since 1992. The initiative would be a political symbol of Russia's treatment as a "normal" country in U.S. trade, further distancing U.S.-Russian relations from the Cold War. It would also be a step in the direction of Russia's accession to the WTO. For investors and other business people, permanent NTR may mean a more stable climate for doing business.

With the signing of bilateral agreement on WTO accession with the United States on November 19, 2006, Russia completed a major step towards joining the WTO. It still must compete negotiations with a WTO Working Party on conditions for its accession. Members of the Working Party, including the United States, have raised concerns about Russia's position on agriculture subsidies and the failure to enforce intellectual property rights, among other issues. If Russia's accession to the WTO to completion, the issue of PNTR for Russia may emerge during the 111th Congress. In a possible debate on PNTR for Russia, Members of Congress may very well consider whether their concerns regarding Russian regulations on agricultural imports, intellectual property rights protection, or limitations on foreign investment have been sufficiently addressed in the bilateral agreement. Other issues regarding overall Russian economic or foreign policies, such as Russia's economic ties to Iran, could also emerge.

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